

Group Insurance Commission Flexible Spending Account Programs

Health Care Spending Account (HCSA) & Dependent Care Assistance Program (DCAP)



**Commonwealth of Massachusetts
Group Insurance Commission**

Participant Handbook - Plan Year 2009

www.myshps.com
www.mass.gov/gic

OVERVIEW OF THE GROUP INSURANCE COMMISSION FSA PROGRAMS

Health Care Spending Account (HCSA) and Dependent Care Assistance Program (DCAP)

- **Open Enrollment:** Fall of each year for the following calendar year (see the GIC website for details)
- **Plan Year:** January 1 – December 31
- **IRS 2 ½ month grace period:** January 1 – March 15 (see page 8 for details)
- **Final deadline to submit plan year and grace period claims:** April 15
- **Annual pre-tax fee:** \$3.75 per month for HCSA, DCAP or both HCSA/DCAP
- **These plans require that participants re-enroll each year.**
- **There is a free debit card for HCSA only.**
- **Claims for services must be incurred during the plan year (see page 7 for details).**
- **Be sure to save all receipts even if you use the debit card; you may be required to substantiate a claim. Failure to provide substantiation may result in de-activation of the debit card, per IRS regulations.**
- **Eligibility details are provided on page 5.**

This is a brief summary of the GIC FSA programs. The Participant Handbook provides important details about the plans, eligibility, claims, and appeals and should be carefully reviewed.

The Commonwealth of Massachusetts' Group Insurance Commission (GIC) sponsors a pre-tax benefit program that includes two tax-saving reimbursement accounts. SHPS is the company that the GIC has selected to administer, adjudicate and process all reimbursement claims on behalf of the GIC. The Health Care Spending Account (HCSA), authorized by Internal Revenue Service (IRS) Code Section 125 and the Dependent Care Assistance Program (DCAP), authorized by Section 129 of the IRS, allows you to set aside pre-tax money from your paycheck to pay for certain health care and dependent care expenses. You then submit your claims for eligible expenses and are reimbursed with tax-free dollars from your account(s) – *which can reduce your out-of-pocket health care and dependent care expenses by nearly 25%!*

Overview of Pre-Tax Reimbursement Accounts

For most participants, the HCSA/DCAP program provides a better tax benefit than is available to an individual taxpayer who itemizes medical expenses. The tax benefits of these pre-tax plans can be derived only from the participation in an employer-sponsored program.

- ❖ A **Health Care Spending Account** pays for eligible medical, dental and vision care expenses incurred by you and your dependents that are not covered by your health care plan or dental care plan.
- ❖ A **Dependent Care Assistance Program** pays for eligible dependent care expenses you incur in order to enable you (or you and your spouse) to work.

Basics of Pre-Tax Reimbursement

Participating in a HCSA or DCAP program can significantly reduce your federal and state income taxes. Through these plans, you pay, on a pre-tax basis, for eligible health care and dependent care expenses.

- ✓ Open enrollment takes place each fall for the following Plan Year. During this time you may enroll and decide how much to deposit (see “Annual Contribution Amount” section on page 5) into each account. Important: You cannot change your contribution until the next enrollment period unless you have a “change in family status” (page 5). **YOU MUST RE-ENROLL EACH YEAR!**
- ✓ Your contributions to HCSA/DCAP will automatically be deducted in equal amounts each pay period from your paycheck on a pre-tax basis and sent to SHPS.
- ✓ When you have incurred an eligible HCSA expense, you can either use your SHPS Spending Account Card or submit a claim form for reimbursement to SHPS. When you have incurred an eligible DCAP expense, send a DCAP claim form to SHPS.
- ✓ All claims are processed daily and reimbursements are deposited directly to your bank account. All reimbursement benefit payments come with a quarterly Explanation of Benefits to make reconciling your records simple and easy, and all information is kept strictly confidential.



Estimate your contributions to each plan carefully. The Internal Revenue Service requires that any money left in either account at the end of the plan year be forfeited (*use it or lose it rule*). The Plan Year runs from January to December with an IRS 2½ month grace period to March 15 of the following year. (See page 8 for more details.)

**Tax Benefits
of HCSA or
DCAP**

Every dollar contributed to the HCSA or DCAP program is made on a pre-tax basis. The Commonwealth of Massachusetts deducts the amount that you selected directly from your “gross” wages. This means that plan contributions are deducted before federal and state taxes.

As a result, your taxable income is less, meaning less money will be withheld from your paycheck for federal/state income taxes.

The following is an example of how a state employee could save money by participating in the pre-tax reimbursement program. Say an employee makes \$30,000 each year, is in the 25% tax bracket and spends \$6,000 in expenses - including \$2,000 in health care expenses and \$4,000 in dependent care expenses. If this employee did not participate in any pre-tax plan his take-home pay, after-taxes and after paying for health care and dependent care expenses, is \$16,500 a year.

However, if that same employee participated in both the HCSA and DCAP pre-tax programs, the money spent on the very same health care and dependent care expenses (\$2,000/\$4,000) would be paid from his HCSA or DCAP account, funded by his biweekly payroll deductions, **prior to federal or state withholdings**. Utilizing this method would provide additional “take-home” income of approximately \$1,500 a year or \$125 per month – *reducing the participant’s health care and dependent care expenses by nearly 25%*. The following table illustrates the example:

BREAKDOWN OF PAY CHECK AND DEDUCTIONS	NOT PARTICIPATING IN HCSA OR DCAP PLAN	PARTICIPATING IN HCSA OR DCAP PLAN
Gross Yearly Pay	\$30,000	\$30,000
Health Care Reimbursement Account Election Annual Contribution (pretax)	\$0	(\$2,000)
Dependent Care Assistance Program Annual Contribution (Pretax)	\$0	(\$4,000)
Taxable Income	\$30,000	\$24,000
25% Federal Withholding	(\$7,500)	(\$6,000)
Yearly Health Care Expenses	(\$2,000 post-tax)	\$2,000 (<i>Claims reimbursed</i>)
Yearly Day Care Expenses	(\$4,000 post-tax)	\$4,000 (<i>Claims reimbursed</i>)
Net Available Income	\$16,500	\$18,000

Contributions to the HCSA/DCAP plan are not subject to tax at any time. Your year-end W-2 form from the Commonwealth of Massachusetts will properly notify all of the government agencies of your participation in the program.

Employees could potentially save up to \$125 a month or \$1,500 a year by participating in pre-tax plans.

Eligibility in a Pre-Tax Plan

Eligibility for Health Care Spending Account

Active state employees and their dependents eligible for health benefits with the GIC are eligible to participate in the HCSA program. Enrollment in one of the GIC's benefit plans is not required. New employee coverage begins on the first day of the month following 60 calendar days from the first date of employment or two calendar months, whichever comes first. Claims incurred after your effective date are eligible for reimbursement. Employees must work at least 18.75 hours in a 37.5 hour workweek or 20 hours per 40 hour workweek. You may claim health care expenses under the HCSA plan for you, your spouse and/or your eligible tax dependents.

Eligibility for Dependent Care Assistance Program

All active state employees who work half-time or more and have employment-related expenses for a dependent child under the age of 13 and/or a disabled adult dependent are eligible for the DCAP program. Employees hired during the Plan Year are eligible for DCAP on the first day of employment.

Enrollment in a Pre-Tax Plan

Enrollment for HCSA & DCAP

If you are a **new employee** with the Commonwealth of Massachusetts, you may elect to participate in the HCSA or DCAP programs. See your Payroll Coordinator for a HCSA/DCAP Enrollment/Change Form.

If you enroll in the HCSA program you will automatically receive a free SHPS Spending Account Debit Card. You can request an additional card for the cost of \$5.00 each additional card. **The SHPS Debit Card is not available for DCAP reimbursements.**

If you choose not to enroll as a **new employee**, you will be eligible to enroll in the HCSA or DCAP plans for the upcoming Plan Year during **open enrollment** in the fall, unless you have a "change in family status" (see "Making Changes to Your Election" page 5). Enrollment for the HCSA or DCAP takes place each fall for the upcoming tax year. To join the plan during open enrollment you must complete the HCSA/DCAP Enrollment and Change Form. This form is available on the GIC's website at www.mass.gov/gic or through your Payroll Coordinator.

Employees hired during the Plan Year are eligible for DCAP on the first day of employment. Employees hired during the Plan Year are eligible for HCSA after the GIC waiting period is satisfied. Enrollment forms must be submitted to your Payroll Coordinator within 30 days from your date of hire.

During Open Enrollment Re-enroll ONLINE

During Open Enrollment - Re-Enrollment ONLINE

If you are a **current HCSA or DCAP participant** with the Commonwealth of Massachusetts, you may elect to re-enroll online by going to www.enrollone.com. Enter your Social Security number and PIN (the last four digits of your SSN) and click "enter." On the next screen, you will be immediately instructed to change your PIN number. Continue to follow the easy online instructions provided on each of the following pages.

Direct Deposit forms can be downloaded on the HCSA and DCAP pages if you need to sign-up for the first time or make changes to your Direct Deposit information.

See the GIC website for up-to-date online enrollment information.

**Annual
Contribution
Amount &
Admin. Fee**

The most important questions that you may have are “How much money should I contribute?” and “How much do the HCSA and DCAP programs cost?” **You must carefully estimate your contributions to the HCSA or DCAP plans, as the IRS requires that money not spent during the Plan Year, including the IRS 2½ Month Grace Period, be forfeited.** For more information about forfeitures and the IRS 2½ Month Grace Period see page 7 “If You Don’t Use Your Entire Account by Plan Year End.”

The cost to administer these programs is paid for by each employee on a pre-tax basis. The monthly administrative fee for Plan Year 2009 is \$3.75 – for HCSA alone, DCAP alone or, if you choose to participate in both the HCSA and DCAP programs you only pay the \$3.75 administration fee for both.

Participants should examine prior-year records to determine how much money you expended for health care and dependent care related expenses.

Health Care Spending Account (HCSA) 2009

The maximum amount that you may contribute for calendar 2009 to your HCSA is \$2,500. The minimum is \$500.

Dependent Care Assistance Program (DCAP) 2009

The Internal Revenue Service regulations limit the maximum amount that you may contribute to the program. The maximum is the lesser of \$5,000 per year per family or 100% of the lowest paid spouse’s income.

Remember, the amount you select will be deducted from your paycheck on a pre-tax basis in equal installments over the period of the Plan Year. If you become eligible for HCSA or DCAP during the Plan Year by having a “change in family status,” (see below) you can elect to deposit up to the full maximum amount for the partial year. Whatever amount you elect will be deducted in equal amounts each pay period for the remainder of the Plan Year.

You will only be reimbursed for eligible expenses incurred while you are participating in the HCSA/DCAP plan and making deposits. You cannot be reimbursed for expenses you incurred before your effective date or after you have ceased making contributions to your account.

**Making
Changes to
Your Election**

In order to comply with IRS regulations, you may only enroll in either plan, change your contribution or terminate your election *during the Plan Year* if you can demonstrate a qualified “**change in family status**.” The following events are considered a valid change in status under IRS regulations:

- Change in legal marital status;
- Change in number of dependents;
- Change in employment status;
- Change in work schedule, which changes your eligibility for the program;
- Dependent satisfies or ceases to satisfy eligibility requirements;
- Significant change of residence or work-site; or
- Judgment, decree or order pertaining to child or spouse.

A change in election due to a “change in family status” must be requested, in writing, no later than 30 days after the “family status change.” A “change in family status” request can be made by completing the HCSA/DCAP Enrollment/Change Form available on the GIC’s website at www.mass.gov/gic, and submitting it to your Payroll Coordinator. You will need to provide a document verifying a change in status such as a marriage or birth certificate.

How to file a claim

As you incur qualified HCSA expenses, you may file a claim for reimbursement with SHPS or immediately pay for the eligible HCSA expense with the SHPS Spending Account Card.

To submit HCSA claims manually or ALL DCAP claims you must submit your claim using either a **Health Care or a Dependent Care Claim Form**. This form is available from your Payroll Coordinator or on the GIC's website at www.mass.gov/gic. All claims must be mailed or faxed to SHPS with the required documentation stated on the claim form. You are allowed to send a cancelled check along with the DCAP claim form as supporting documentation. **BE SURE TO RETAIN YOUR RECIEPTS, PER IRS.** Failure to provide substantiation may result in the de-activation of the debit card.

HCSA- You are permitted to make a claim for an eligible expense up to your total annual election, at any time during the year, provided the expense was incurred while you are making deposits to your account.

There is a \$25.00 minimum reimbursement amount.

DCAP- You are permitted to submit a claim for eligible expenses after the services have been rendered, and up to the amount of money that is currently in your DCAP account. For example:

If you submit a signed claim form on October 17th for day care expenses for the entire month of October, only October 1-17th will be reimbursed. The remainder of the month will be rejected and a separate claim form for the remainder of the month will have to be provided after October 31. In order to be paid for the entire month, you would have to wait until November 1st to submit a claim.

When you submit eligible expenses for reimbursement, you may need to certify that the expense is not reimbursable from any other source. Also, you may only submit eligible health related claims for reimbursement from your HCSA and dependent care expenses to your DCAP.

IMPORTANT: To be considered eligible for reimbursement, the expense must occur during the Plan Year - on or after the date you become a participant in the plan. An expense is incurred when you receive the treatment or service, purchase the supply, or order the items, NOT when you receive a bill or make a payment.

Eligible Dependents

For the HCSA and DCAP programs, you may claim reimbursements for expenses incurred by your legal spouse (as determined in accordance with state law to the extent consistent with the federal Defense of Marriage Act), any individual who would qualify as a tax dependent of yours under IRS Code Part 152, and any child for whom you are required to provide health coverage pursuant to a Qualified Medical Support Order. Also, children of divorced parents are considered to be a dependent of both parents.

For purposes of the dependent care plan, an "eligible dependent" **must be under age 13**. However, if a dependent is mentally or physically handicapped, he or she will remain a qualified dependent for the dependent care irrespective of age.

Note: *In compliance with the IRS guidelines, the service provider cannot be an individual for whom a personal tax exemption may be claimed.*

**Eligible
Health Care
Expenses**

Many health care expenses not paid by your medical and dental plan can be reimbursed from your HCSA. Eligible expenses under a health care spending account are defined as those that are medically necessary, prescribed by a licensed practitioner and are not reimbursed under another program. To be considered eligible, these expenses must be considered expenses under Section 213 (d) (1) of the Internal Revenue Code. For full a listing of the eligible HCSA expenses go to www.myshps.com, Flexible Spending Accounts.

IMPORTANT NOTE: Keep in mind that expenses such as insurance premiums may be deductible on Schedule A of your federal taxes but are not eligible for reimbursement through a health care spending account. Certain medical expenses will require a doctor's statement indicating the specific medical condition, for example, speech therapy.

Medical care expenses include payments you make for the diagnosis, cure, mitigation, treatment, or prevention of disease, or treatment affecting any part or function of the body. They also include insulin, and medicines and drugs that require a prescription. In addition, many over-the-counter items (i.e., those not requiring a prescription) are considered an eligible expense.

**Eligible
Dependent
Care
Expenses**

Eligible dependent care expenses are defined as those that enable the participant and the participant's spouse to work or to look for work. Your DCAP expenses must be for the well-being and protection of a qualified dependent under the age of 13 or who is mentally or physically handicapped while you and/or your spouse, if married, work or are actively looking for employment. For full a listing of the eligible DCAP expenses go to www.myshps.com, Flexible Spending Accounts.

The IRS requires that any unused funds in participant accounts at Plan Year-end be forfeited. Further, you may not transfer unused money from one account to another. Each account must remain separate.

Since the IRS does not allow you to carry amounts from one Plan Year to another, nor for excess contributions to be refunded to you, it is very important that you estimate your contributions carefully.

However, to alleviate forfeiture concerns, the IRS provides a 2½ month "grace period" in which you can spend down unused plan year contributions in either plans. For instance, if you have \$100 left over in your HCSA at the end of the plan year, you may still incur eligible expenses until March 15 that may be applied to your remaining prior year HCSA balance of \$100. If you use your HCSA debit card or submit a paper claim form for eligible expenses incurred during the 2 ½ month grace period, these expenses will be deducted from your current year account. By mid-June, accounts will be reconciled; the 2 ½ month grace period claims will be applied to your prior year account balance and re-applied to your current year account. The only receipts that will be processed against your prior year balance are those with a prior year date.

The deadline to submit all receipts you incurred during the current plan year, including claims incurred during the 2½ month grace period, is April 15. The HCSA/DCAP Plan Year-ends on December 31 and you must submit all prior year claims - including claims incurred during the 2½ month grace period - by April 15. After April 15, your account will be closed for the prior plan year.

**If You don't Use
Your Entire
Account by
Plan Year End/
2 ½ Month
Grace Period**

**Privacy
Of Medical
Records**

Under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") group health plans such as the health care spending account and the third party service providers are required to take steps to ensure that certain "protected health information" is kept confidential. You may receive a separate notice that outlines the health privacy policies of the plan.

**When
Does
Coverage
End?**

If you choose not to enroll in HCSA or DCAP during open enrollment or during your first 30 days of employment you will not be able to enroll until the next open enrollment, unless you have a "change in status."

**What
happens if
I take an
unpaid
leave of
absence?**

YOU MUST RE-ENROLL EACH PLAN YEAR. THE HCSA/DCAP ELECTION APPLIES FOR ONE PLAN YEAR ONLY. IN ORDER TO CONTINUE PARTICIPATION IN THE PRE-TAX PLAN(S), YOU MUST RE-ENROLL IN THE HCSA/DCAP ELECTION AT EACH OPEN ENROLLMENT.

If you elect to participate in a HCSA or DCAP and take an unpaid leave of absence or go off payroll for any reason your eligibility will cease. You will be able to submit claims for expenses that you incur on or before your last paycheck deduction. You should speak to your Payroll Coordinator to go over the following options:

- 1) If you return to the payroll during the Plan Year you may re-enroll in the plan you had been enrolled in and your payroll deductions will be recalculated so that your original annual election is deposited by calendar year end. Please see your Payroll Coordinator to re-enroll and submit a HCSA/DCAP Enrollment/Change Form. This form is available on the GIC's website at www.mass.gov/gic. (Please see page 5 "Making Changes to Your Election" to check if you are able to reduce your annual contribution mid-year)
- 2) You may have the deductions for the period of your unpaid leave taken on a pre-tax basis from the last paycheck you receive prior to your leave, provided your paycheck is sufficient. If you elect this option, you may continue to submit expenses for reimbursement for eligible expenses incurred during your leave of absence.
- 3) You may choose not to contribute for the pay periods you will be on an unpaid leave of absence. If you elect this option, you will not be reimbursed for any expenses incurred during your unpaid leave of absence.

BE ADVISED: This option (3) will apply if you do not submit the "Change in Status" form within 30 days of your leave of absence.

- 4) You may elect to continue to contribute to your HCSA account while on an unpaid leave of absence under COBRA by making direct payments on an after-tax basis. You will need to contact your Payroll Coordinator and complete a COBRA application available on the GIC's website at www.mass.gov/gic. Contact the GIC directly for billing information.

Should you return to active employment before the end of the calendar year, see your Payroll Coordinator to re-enroll. Payroll deductions will be recalculated so that the annual election is deposited to your account by calendar year end, unless you had a "change in status."

If you did not continue coverage during your unpaid leave of absence, any expenses incurred while you were off the payroll will not be eligible for reimbursement from future deposits made to the account.

**If You
Terminate
State
Service
During the
Plan Year**

If you leave state service during the Plan Year, your participation in HCSA and DCAP will terminate at the end of the payroll period that includes your last day of work. You will only be able to submit claims for eligible health care expenses that were incurred on or before your last paycheck deduction. In order to use your HCSA account **after** you terminate state service you have two options:

- 1) You may elect to continue to contribute to the HCSA account under COBRA by making direct payments on an after-tax basis. The HCSA COBRA application is available on the GIC's website at www.mass.gov/gic. The amount billed to you would include a 2% administrative fee. You must notify your Payroll Coordinator within 60 days of your termination date in order to take COBRA.
- 2) You may choose to contribute the deductions for the balance of the Plan Year taken from your last paycheck on a pre-tax basis. This option will permit you to save the taxes as if you were still on the Commonwealth payroll; however, you would need to contact your Payroll Coordinator **at least two weeks prior** to your last paycheck date in order to take this option.

Be advised. HCSA: If you choose neither of these options, you will not be reimbursed for any health related expenses incurred after your date of termination. **DCAP:** You may file claims for eligible dependent care expenses against your account balance for expenses you incur until your DCAP account is exhausted.

**What if my
claim is
denied?**

If you are denied a benefit under the HCSA or DCAP (e.g. claim for reimbursement denial, eligibility for pre-tax benefits or election change) and you feel this denial was made in error you will need to file an appeal with SHPS. You must include a letter explaining the situation and why you believe the claim should be paid. You will also need to submit any and all appropriate documentation. You should also send a copy of the denial EOB with the appeal.

All appeals:

SHPS
Spending Account Operations
Appeals Department
P.O. Box 34700
Louisville, Kentucky 40232